



WEEKLY ECONOMIC DIGEST

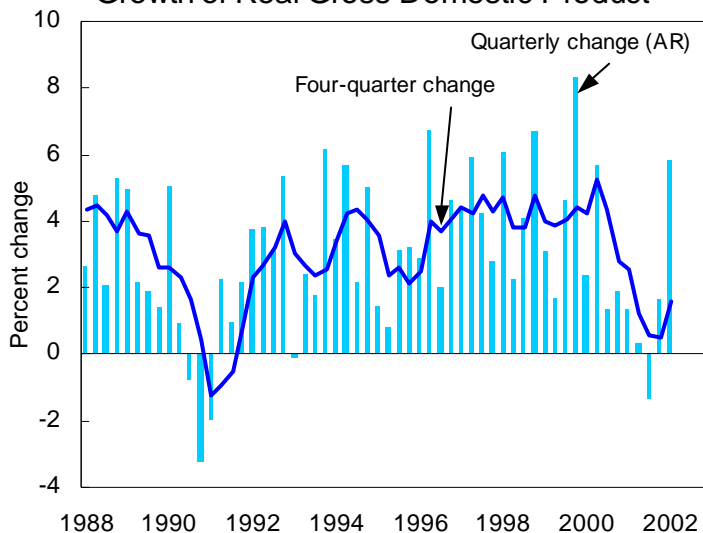


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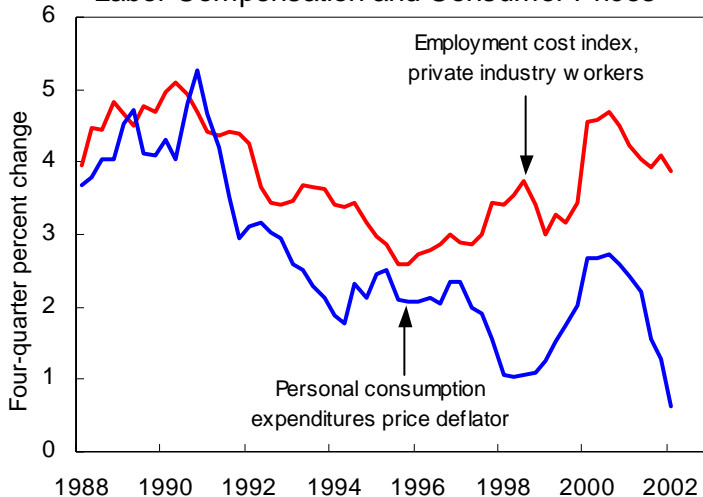
April 30, 2002

GDP Surged but Underlying Growth Remained Moderate

Growth of Real Gross Domestic Product



Labor Compensation and Consumer Prices



- **GDP rose sharply.** Real (inflation-adjusted) gross domestic product (GDP) grew 5.8 percent at an annual rate during the first quarter, according to preliminary estimates published by the Department of Commerce. That growth put GDP 1.6 percent above its level a year earlier. As analysts had expected, much of that surge in GDP stemmed from a sharp slowing in the rate at which businesses trimmed their inventories.
- **Underlying growth was more modest.** Final sales (a measure of underlying demand that excludes the often volatile effects of inventory change) rose at an annual rate of 2.6 percent. While respectable, that growth was below the 3.8 percent advance posted in the fourth quarter of last year. A widening of the trade deficit along with slower growth in nondefense government spending contributed to the slowing in overall final sales. Although business spending on fixed capital declined for the fifth consecutive quarter, the 5.7 percent (annual rate) drop was the smallest in a year.
- **Growth in Consumption spending has slowed.** After growing at an average annual rate of 5.3 percent in January and February, real personal consumption expenditures grew by only 2.1 percent in March. Moreover, the University of Michigan's measure of consumer confidence declined in April, and most analysts anticipate that employment grew little, if at all, this month. Consumers have carried the economy over the last two years and slower consumption growth could mean a slow recovery.
- **Wage and price inflation remained tame.** Growth of labor compensation (as measured by the employment cost index for private industry workers) slowed 0.6 percentage points to 3.6 percent (annual rate) in the first quarter. Compensation was 3.9 percent above its level a year earlier, as growth in both benefits and wages and salaries slowed. The price deflator for personal consumption expenditures (a measure of consumer prices favored by many analysts over the consumer price index) was only 0.6 percent above its level of a year ago. This was the lowest four-quarter inflation rate for that measure in about 40 years. Thus, the first-quarter surge in real growth should not be a concern to the Federal Reserve.

Economy At A Glance	Mar	Feb	Jan	Dec	2002 Qtr 1	2001 Qtr 4	2001 Qtr 3	2001 Qtr 2	2001	2000
Economic Activity										
Real GDP (% growth)					5.8	1.7	-1.3	0.3	1.2	4.1
Industrial Production (% growth)	8.7	3.7	6.2	-4.7	2.5	-6.7	-4.7	-5.9	-3.9	4.5
Capacity Utilization (Level, %)	75.4	74.9	74.7	74.4	75.0	74.7	76.2	77.4	76.8	81.8
Civilian Unemployment Rate (Level, %)*	5.7	5.5	5.6	5.8	5.6	5.6	4.8	4.5	4.8	4.0
Housing Starts (Thousands)	1646	1785	1713	1602	1714	1579	1601	1623	1603	1569
Real Disposable Personal Income (% growth)	3.7	7.4	22.4	4.9	10.4	-8.1	12.3	2.4	3.6	3.5
Retail Sales (% growth)	2.6	2.5	-1.8	2.9	-3.1	12.3	-1.3	5.5	3.5	7.6
Personal Saving Rate (Level, %)	2.2	2.1	2.0	0.6	2.1	0.4	3.8	1.1	1.6	1.0
Inflation & Productivity										
CPI-U Inflation, All Items (% growth)	3.7	2.4	2.4	-1.2	1.4	-0.3	0.7	3.1	2.8	3.4
Core CPI-U Inflation (% growth)	1.2	3.7	2.4	1.2	2.3	2.7	2.7	2.4	2.7	2.4
Compensation per Hour (% growth)					3.6	4.2	3.7	4.0	4.1	4.5
Output per Hour (% growth)						5.2	1.1	2.1	1.9	3.3
Financial Markets										
T-Bill Rate, 3-month (Level, %)	1.8	1.7	1.7	1.7	1.7	1.9	3.2	3.7	3.4	5.8
T-Note Rate, 10-years (Level, %)	5.3	4.9	5.0	5.1	5.1	4.8	5.0	5.3	5.0	6.0
Federal Funds Rate (Level, %)	1.7	1.7	1.7	1.8	1.7	2.1	3.5	4.3	3.9	6.2
Dow Jones Industrial Avg (Index Level)	10501	9891	9924	9980	10105	9641	9934	10669	10189	10735

Sources: Bureau of Economic Analysis, US Department of Commerce; US Bureau of the Census; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics, US Department of Labor; and, Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

* Subject to revision this week.

Major Economic News Due Next Week:

- **Construction Spending, March** [Release: Wednesday, May 1, 2002]
- **Vehicle Sales, April** [Release: Wednesday, May 1, 2002]
- **Factory Orders, March** [Release: Thursday, May 2, 2002]
- **Employment Situation, April** [Release: Friday, May 3, 2002]